



Earned Income Tax Credit (EITC) Thresholds and Tax Law Updates

What is the Earned Income Tax Credit (EITC)?

The earned income credit (EITC) is a tax credit for certain people who work and have low wages. A tax credit usually means more money in your pocket. It reduces the amount of tax you owe. The EITC may also give you a refund.

Who can claim the credit?

To claim the EITC on your tax return, you must meet all of the following rules:

- Must have a valid [Social Security Number](#)
- You must have [earned income](#) from employment or from self-employment.
- Your filing status cannot be married, filing separately.
- You must be a U.S. citizen or resident alien all year, or a nonresident alien married to a U.S. citizen or resident alien and filing a joint return.
- You **cannot** be a qualifying child of another person.
- If you do not have a qualifying child, you must: be age 25 but under 65 at the end of the year, live in the United States for more than half the year, and not qualify as a dependent of another person

Tax Year 2008

[Earned income](#) and adjusted gross income (AGI) must each be less than:

- \$38,646 (\$41,646 married filing jointly) with two or more qualifying children;
- \$33,995 (\$36,995 married filing jointly) with one qualifying child;
- \$12,880 (\$15,880 married filing jointly) with no qualifying children.

Tax Year 2008 maximum credit:

- \$4,824 with two or more qualifying children;
- \$2,917 with one qualifying child;
- \$438 with no qualifying children.

Investment income must be \$2,950 or less for the year.

The maximum **Advance Earned Income Tax Credit** (Advance EITC) for 2008 an employer is allowed to provide to employee's pay is \$1,750.

What is Earned Income?

Earned income includes all the taxable income and wages you get from working. There are two ways to get earned income:

You work for someone who pays you OR
You work in a business you own.

Taxable earned income includes:

- Wages, salaries, and tips;
- Union strike benefits;
- Long-term disability benefits received prior to minimum retirement age;
- Net earnings from self-employment.
- Combat Pay (Nontaxable combat pay election. You can elect to have your nontaxable combat pay included in earned income for the earned income credit.)

Some examples of Income that is not considered earned:

- interest and dividends
- pensions
- social security
- unemployment benefits
- alimony
- child support.

How do I figure my credit?

Once you know that you qualify for the EITC, you need to know how to figure the amount of the credit. You have two choices of how to figure the credit:

1. Have the IRS figure the credit for you. See Publication 596, or
2. Figure the credit yourself. To do this you must use the Earned Income Credit Worksheet (EIC Worksheet) in the instruction booklet for Form 1040, Form 1040A, or Form 1040EZ, and the Earned Income Credit (EIC) Table in the instruction booklet, or use the [EITC Assistant Tool](#) online.

For more information, see Chapter 4, Figuring and Claiming the EITC, in [Publication 596](#).